

# EXCISES HARMONIZATION IN THE CONTEXT OF ECONOMIC CRISIS IN ROMANIA

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*This article tries to present the major aspects concerning the excise harmonization in the context of economic crisis in Romania. The paper realizes an analysis of the harmonization steps in the European space underlining the current situation when the revenues from excises represent a valuable source of financing the public expenditures. In Romania the harmonization process is not accomplished entirely, but the last increasing of the excises are due to this process.*

*Keywords: excise duty, tax harmonization, tax revenues*

*Cod JEL: H23, H3, G18.*

## **Introduction**

Excise duty is an indirect tax, a consumption tax payable on certain categories of goods including alcoholic beverages, gasoline, tobacco products, coffee, electricity and certain other items. The tax is payable on import and sales of locally produced items on the domestic market and is set as fixed euros amount per unit ("specific excises") or as a percentage of a specified taxable base (ad-valorem tax). Excise taxes have an important role in the budgetary and fiscal policy of every government because are used not only for obtaining the public revenues, but also for other purposes like to discourage consumption of specific commodities; taxes on alcoholic beverages and tobacco products are the obvious examples. Tobacco taxes can be considered as instruments for adjusting externalities through increasing the price by an amount that corresponds to the measured externalities. The same situation can be considered for the energy excises when the negative externalities- pollution- can be reduced through the revenues obtained from this excises. The issue of tax harmonization is a continue process for all EU member states. Even if the excise duty revenues have only 3.1% of GDP and 10% of the total revenues in the 2009 in Romania, the importance and the consequences of excises are considerable for our economy. In the European Union countries the highest share of excises revenues in gross domestic product is in Bulgaria 5.8 % of GDP and for EU the average is 2.5 %.

First issue is excise harmonization, a continuously process for Romanian fiscal system. According to the harmonization process in Romania, we have few directions for realizing excises harmonization:

- a minimum tax rate;
- taxation object: establishing the categories of goods and services imposed with excise;
- collecting procedures for transport, depositing and commercializing the goods imposed with excises.

Why is so important the harmonization process of excises? The answer is: because of the consequences and the major impact of this process from economic and social perspectives. The

major consequence is price increasing, not only for the products imposed with excises, but also for many other categories of goods whose price includes indirectly excises. For instance, fuels excises can be considered inflationary, because conduct to a generalized price increase.

On the other hand excises on alcoholic drinks and tobacco are used for protecting the population health. The impact of increasing these excises is not always reducing the harmful consumption. But, instead increasing excises has a major impact of tax evasion. For instance, for cigarettes the excise rate was 64euros/1000 cigarettes and now is 74 euros and because of this excise increase many economic agents prefer to commercialize the cigarettes without paying the excise duty.

Another consequence of excise harmonization is removing the luxury excises starting with this year 2010. How proper is this measure for our budget in this period of economic crisis when the budgetary expenditures cannot be covered because of the lack of fiscal revenues?

For these arguments our research tries to evaluate the current situation of excises in Romania comparative with other states member of EU with similar harmonization process.

### **Harmonization process**

The main objective of excises harmonization was to establish minimum rates of taxes for avoiding price distortions in the European Union. The aim of the state is to reduce consumption especially referring to the environment protection (e.g. from energetic products and electricity in the area of excise taxes) or the negative externalities (e.g. medical costs of smokers) which are not included in the price of product. Only in the case of zero elasticity of supply and demand it is possible to reduce overconsumption. In this case excise taxes increase the effectivity of tax system.

Another problem is regressivity of excise taxes. Consumption of products, which are liable to excise taxes at taxpayer with the increase of his income, reduces it. Taxpayers with low incomes face relatively higher tax burden. Moreover, it is proved that the consumption of tobacco and alcohol is relatively higher at poor people or countries.

In the European Union space excises harmonization represents a special issues imposed by the follow reasons:

- even if excises are not general consumption taxes like VAT, are applied on fuels. This category of goods represents in the now days an essential raw material necessary for realizing any products, thus we have excises indirectly in almost of the goods. For this reason an increasing or a decreasing of excise tax rate produces chain effects in the prices and can leads to some intercommunity distortions between EU countries;
- the role of excises in tax competition is significant because this category of taxes can induce the propensity of the member states for the reduced tax rates.

So, in this context we have the first measure to excise harmonization in 1993, in the EU quite late, because the excises have a reduced role comparing with VAT in the budgetary revenues. In relation to internal market a number of directives were adopting in this field. All the systems of excise duties have been implemented in the EU as a part of the internal market since 1st January 1993.

Excises harmonization is based on the follow instruments: object harmonization, tax base harmonization, tax rates coordination and fiscal procedures harmonization. The next table illustrates this level of excises harmonization and the main results for European Union.

**Table no. 1**

Harmonization level	Explications	Results
<b>Tax object</b>	Defining the products imposed: alcoholic beverages, manufactured tobacco products and energy products (motor fuels and heating fuels, such as petrol and gasoline, electricity, natural gas, coal and coke).	The members states have the right to impose excises on the other products, but only if this excises not imply custom duties procedures. But this kind of excises is discouraged because the receipts are very low.
<b>Taxation base</b>	Defining the taxation base and establishing the exemptions.	The taxation base was established as the maximum retail selling price for cigarettes, Plato degree for beer, hectoliters for alcohol. The exemptions are mentioned for every category, for instance for the energy products used as raw materials.
<b>Tax rates</b>	Even if minimum tax rates were introduced in 1993, there are may variation (for ex. for cigarettes we have a variation factor from 4 to 1 between the countries with minimum and maximum tax rates for excises) <sup>394</sup> .	For some countries was established a schedule for tax rates increase, is the situation of Romania also. The maximum tax rate for excise cigarettes is in Ireland 260 Euros/1000 cigarettes and minimum is in Poland only 64 Euros.
<b>Fiscal procedures</b>	The taxable event is generally the production and the import in EU of excisable goods. The tax liability is suspended until the moment of consumption.	Thus was established fiscal warehouse regime under national fiscal authorities.

EU legislation in the area of excise duties on these products was mainly adopted in the context of the establishment of the Internal Market on 1 January 1993, which involved the abolition of controls of a fiscal nature at internal borders between Member States. This legislation, which has been further developed since, can be divided into three main categories according to the European Commission:

- The structure of the tax to be applied to a particular group of products. The structure of taxation means the definition of the product categories, the way in which the excise duty is calculated (e.g. per hl; per degree alcohol; per 1000 pieces, etc.), the scope of possible exemptions, etc.
- The minimum rates of duty that Member States have to respect for each type of product. Above those minimum rates, Member States can freely fix their own rate levels.
- General provisions that apply across the product categories. These provisions concern in particular the production, storage and movement between Member States of excise products.

<sup>394</sup> Negrescu D., Comănescu A., (2007), *Fiscal Harmonisation Trends in the European Union. Challenges for Romania*, Study no. 5, Project SPOS 2007 – Strategy and Policies Studies, European Institute of Romania, București

The initial idea was to harmonize both the structure and the tax rates of excise duties system. The harmonization efforts were (as well as in case of the value added tax harmonization) transferred rather to the structural field and only the minimum tax rates were set.

Analogically to VAT, the principle of destination was selected for the excise duties – goods subjected to excise duties are taxed in the country of consumption so that there would be no market deformation (principle of origin with existence of different tax rates does not ensure the tax neutrality). With effect from 1st January 1993 tax base harmonization is ensured by the uniform custom tariff and since the same date the minimum tax rates has been set.

Excise duties harmonization in the EU is based on three groups of directives<sup>395</sup>:

- **horizontal directive: directive no. 92/12/EEC**, which serves as general regulation for the production, holding and transport of products subjected to excise duty;
- **structural directive** – related to harmonization of structure of excise duties; is structuralizing excise duties into excise duty on mineral oils, alcohols and alcoholic beverages and tobacco;
- **four directives on approximation of tax rates** of above introduced excise duties.

### Current situation of excises in Romania

Excise duty is a consumption tax payable on certain categories of goods including alcoholic beverages, gasoline, tobacco products, coffee, electricity and certain other items, considered luxury products, but excluded from taxation starting with this year. The tax is payable on import and sales of locally produced items on the domestic market and is set as fixed EUR amount per unit or as a percentage of a specified taxable base. The excise duties in respect to the main categories of goods are given in EUR in the table below:

**Table no. 2**

CATEGORY OF GOODS	EXCISE DUTY RATES FOR 2010
Alcoholic products	Up to EUR 750 per hl
Cigarettes	EUR 48.5/1000 cigarettes +22% of the declared maximum retail price= EUR 74.01/1000 cigarettes
Car fuels	EUR 347- EUR547 per ton
Electricity	EUR 0.5 or EUR 1/MWh
Coffee	EUR 153- EUR 900 per ton

Taxpayers are normally required to submit monthly tax returns and pay the excise duties for excisable goods by the 25th of the following month, with certain exceptions. In case of imported goods, the related excise duty, if applicable, should be paid at the time of making import declaration at customs.

The fiscal warehouse regime allows the production, transformation and/or storage of products subject to harmonized excise duties (e.g., beer, wines, other fermented beverages, intermediary

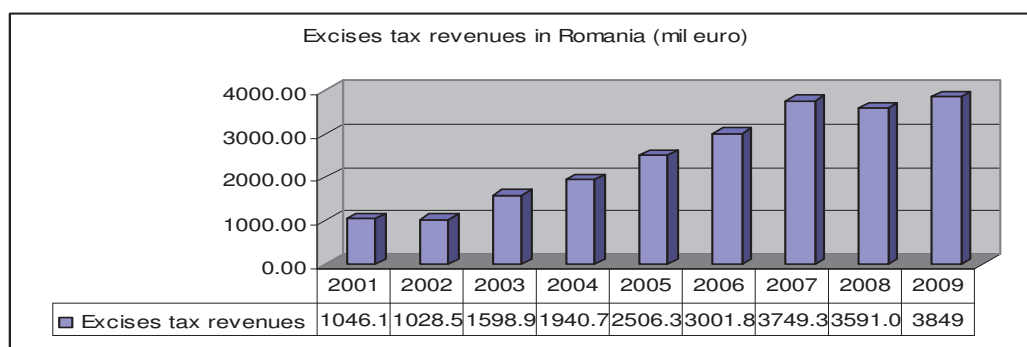
<sup>395</sup> European Commission, [http://ec.europa.eu/taxation\\_customs/taxation/excise\\_duties/](http://ec.europa.eu/taxation_customs/taxation/excise_duties/)

products, ethyl alcohol, tobacco products, and mineral oils) without the payment of related excise duties. Generally, the fiscal warehouse regime cannot be used for retail sale of such products. The Fiscal Code allows production (and storage) of electricity and natural gas outside fiscal warehouses. In certain condition, the excisable goods could be moved under an excise duty suspension regime within the territory of the Community. The movement of the excisable goods under the suspension of excise duty must be covered by an administrative document and be supervised by national authorities. For this purposes, a computerized system for monitoring movements of the harmonized excisable goods under suspension excise duty within the Community, named EMCS (Excise Movement and Control System) will be implemented starting with 1 April 2010. Starting with 2010 non-harmonized excise taxes – consumption levies on luxury products – are removed, except for those charged on coffee.

### Methodology and results of excises analysis in Romania

Our analysis starts with the evolution of tax receipts from excises, beginning with 2001 until 2009. The absolute data reflect an upward trend until 2008, when the Romania has to face to economic crisis, but the trend is resumed in 2009.

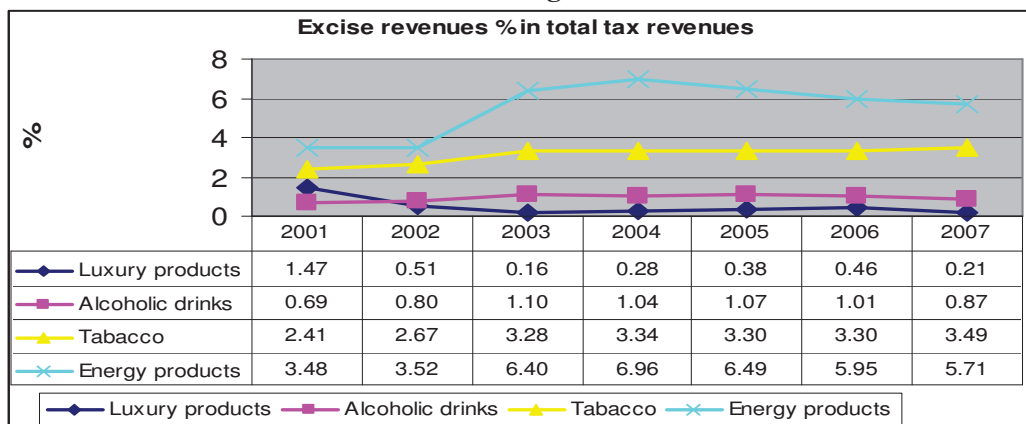
**Figure 1**



Source: The author's calculation based on the Eurostat and Finance Minister Data

The structural analysis of excise tax receipts is more important because reveals the major categories of goods which provides revenues for the budget. In the next figure is a structural evolution based on the classification of excises: harmonized excises applied of three categories of goods: alcoholic drinks, tobacco, energy products and non-harmonized excises for luxury products. For all harmonized excises the receipts as % of total revenues have upward trends from 2001 until 2007.

**Figure 2**

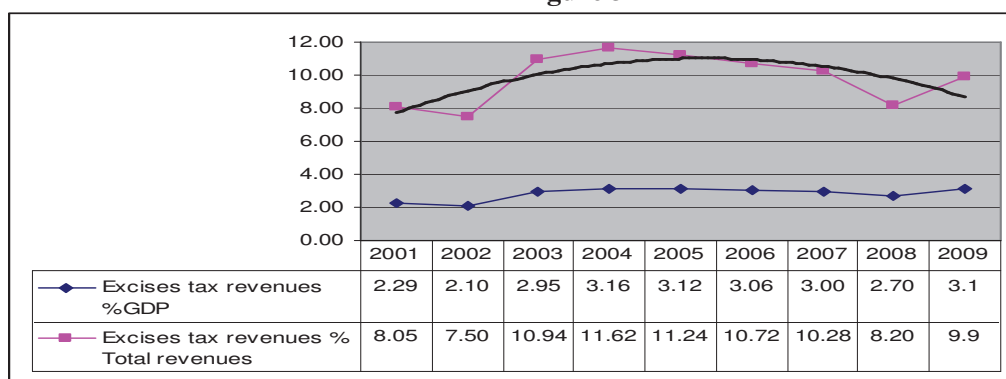


Source: The author's calculation based on the Eurostat and Finance Minister Data

Only the excises on luxury gods have decreased from 1.47% of the total revues to 0.21%, reflecting the lower importance in financing the public expenditures. This trend is explained by increasing the tax evasion in the case of luxury goods. Removing this luxury excises means a small decrease of tax receipts, but in the economic crisis every source of revenues is important. More than that luxury excises are a good mean to realize the fiscal equity and are not regressive like a possible increasing of VAT rate.

Excises for energy products are a reliable source of revenues, more than a half of the excises receipts are from this category, almost 6% of the total revenues. These excises also have the greatest inflationary impact reflected in the price increasing for the majority of goods.

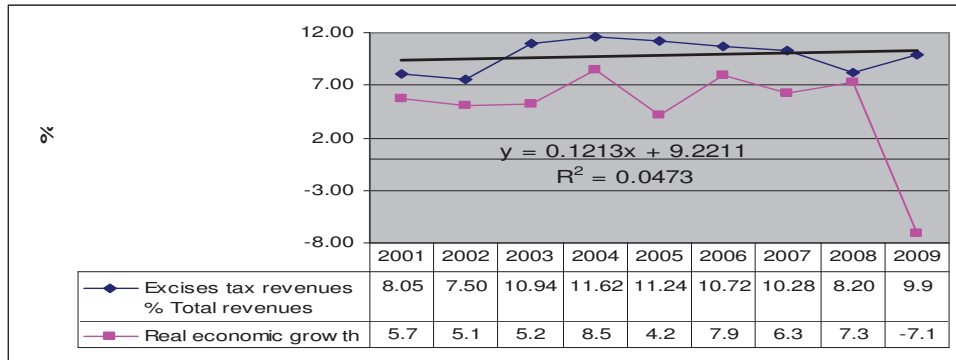
**Figure 3**



Source: The author's calculation based on the Eurostat and Finance Minister Data

Evolution of excise tax revenues as % of GDP varies from 2.3 % in 2001 to 3.1 in 2009 with slight variations, with an important decrease in 2008. The impact of economic crisis had an important decrease of all tax revenues, especially in the case of VAT and corporate taxes.

**Figure 4 Correlation between excises and economic growth**



We try to verify the correlation between the economy evolution and excises receipts for 2001-2009 in Romania. But from the previously figure we have a low correlation between economic growth and excises, this low correlation is explained through the fact that excises revenues are a stable source of public budget financing, because are imposed on the goods with inelastic demand and for this reason the evolution of economy has a reduced impact of excise receipts.

### Conclusion

Removing excises for luxury goods is not a proper decision for this period of economic crisis, when countries like Greece increase these excises for obtaining many revenues for financing the budget deficit. The decision to scrap the excise on luxury goods occurs at a time when some tax advisers suggested the authorities an extra charge on luxury products such as expensive buildings and cars, in order to collect more money to the budget strapped by the crisis. On the other hand, the harmonization process has to be accomplished in conformity with EU requirements.

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